

**Care N' Care Insurance Company of North Carolina, Inc.**

Greensboro, North Carolina

**Report on Examination**

As of December 31, 2018

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December 12, 2019

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Care N’ Care Insurance Company of North Carolina, Inc.**

(hereinafter referred to as the “Company”), at its main administrative office and statutory office located at 7800 McCloud Rd., Greensboro, NC. The following report on examination is respectfully submitted.

**SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from January 28, 2015 to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s first examination of the Company was as of December 31, 2018.

The purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Capital and Surplus  
Cash and Investments  
Financial Reporting  
Premiums and Underwriting  
Reinsurance Ceding  
Related Party

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). CliftonLarsonAllen, LLP of Minneapolis, Minnesota, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018.

## REPORT ACRONYMS

Board of Directors	“Board”
Care N’ Care Insurance Company of North Carolina, Inc.	“Company”
Care N’ Care Insurance Company, Inc.	“CNC TX”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
Independent Practice Association	“IPA”
Medicare Advantage Delegation Agreement	“MADA”
Moses H. Cone Memorial Hospital	“Cone Health”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
North Texas Specialty Physicians	“NTSP”
Premium Deficiency Reserve	“PDR”
Risk Based Capital	“RBC”
RGA Reinsurance Company	“RGA”
Triad Healthcare Network, LLC	“THN”
Wesley Long Community Health Services, Inc.	“Wesley Long”

## SUMMARY OF SIGNIFICANT FINDINGS

### 1. Analysis of Examination Adjustments

	December 31, 2018
Surplus as originally reported to the Department	\$16,052,937
a. Claims unpaid	(918,000)
b. Health care and other amounts receivable	(279,525)
c. Accrued retrospective premiums	(625,315)
Adjusted surplus	\$14,230,097

- a. To increase the claims unpaid reserve for understatement at year-end 2018. (Refer to Note 2.b.)
- b. To non-admit pharmacy rebates improperly admitted at year-end 2018. (Refer to Note 2.c.)
- c. To decrease accrued retrospective premiums receivable due to overstatement at year-end 2018. (Refer to Note 2.d.)

### 2. Comments, Recommendations, and Directives

- a. The Company’s PDR totaling \$78,000 at December 31, 2018, is insufficient to cover its estimated loss on unearned premium. Based on the Department’s review, the Company’s PDR was materially insufficient each year subsequent to the Department’s prior examination through, and including, the year ended December 31, 2018. According to the Company’s most recent forecast of its projected Medicaid Advantage loss for 2019, the Company’s PDR is understated by \$2,689,918 at December 31, 2018. The Department recommends that the Company compare its PDR to its actual

results on a quarterly basis to recognize and report to the Department any new or emerging deficiencies and evaluate its effect on the reserves of the Company.

- b.** The Department performed a review of the Company’s reserves for unpaid claims at December 31, 2018 and determined that the reserves were insufficient by \$918,000. The Company is directed to maintain adequate reserves for unpaid claims in accordance with the Statement of Statutory Accounting Principles (“SSAP”) No. 55 paragraph 4.
- c.** The Company accrued an estimated amount for pharmaceutical rebates receivable totaling \$279,525 at December 31, 2018, which was not properly invoiced or confirmed in writing until February 2019. According to SSAP No. 84 paragraph 10.b, “Billed amounts for an estimated amount under paragraph 10.a. shall be admitted only if the determination of the rebate, based on actual prescriptions filled, occurs and is invoiced or confirmed in writing within the 2 months following the reporting date of the estimated amount.” The Company is directed to comply with SSAP No. 84 paragraph 10.
- d.** The Company accrued an estimated amount for accrued retrospective premiums totaling \$625,315 at December 31, 2018. According to SSAP No.6 paragraph 7.d, “retrospective premiums are governed by insurance contract provisions. If the due date for the receivables relating to these policies is not addressed by insurance policy provisions or insurance contract provisions, any uncollected premium either accrued or billed is nonadmitted.” The Company is directed to comply with SSAP No.6 paragraph 7.d.
- e.** The Company did not maintain any fidelity bond coverage from January 1, 2016, through December 31, 2018. The NAIC’s recommended minimum range for the Company’s fidelity bond coverage is \$700,000 to \$800,000. We recommend that the Company maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.
- f.** The Company did not properly disclose multiple related party transactions in Note 10(d) of its 2018 Notes to Financial Statements and in its 2018 Annual Statement (“AS”) Schedule Y. The Company is directed to ensure accurate financial reporting disclosures in future filings with the Department, pursuant to the NAIC AS Instructions and GS § 58-2-165(c).
- g.** The Company reported \$80,000 of treasury stock as common stock on their AS. The Company did not accurately report common stock, treasury stock and gross paid in surplus in its 2018 and 2017 AS. This reporting error has no impact to the Company’s surplus. The Company is directed to ensure accurate financial reporting in future filings with the Department, pursuant to the NAIC AS Instructions and GS § 58-2-165(c).
- h.** The Company’s audited financial statements as of December 31, 2018 contained various differences from amounts reported in the Company’s 2018 AS due to audit adjustments made by the Company’s independent auditor. Audit adjustments deemed to be immaterial to our examination are not disclosed, however, the Company is directed to ensure accurate financial reporting in future filings to the Department pursuant to GS § 58-2-165(c).
- i.** The Company did not give the Department written notice of its appointment of an actuary, either directly by its Board of Directors (“Board”) or by the authority of the Board through an executive officer of the Company, within 45 days after the date of the appointment. The Company is directed

to comply to the requirements of GS § 58-2-40 and Title 11 of the North Carolina Administrative Code Chapter 11F.0303(c).

## COMPANY HISTORY

The Company was incorporated on January 28, 2015, under the laws of the State of North Carolina as a local Preferred Provider Organization. The Company had 400,000 shares of \$1 par value capital common stock authorized and issued, of which 80% was owned by Wesley Long Community Health Services, Inc. (“Wesley Long”) and 20% was owned by Care N’ Care Insurance Company, Inc. (“CNC TX”), a Texas domiciled company. Wesley Long is a wholly owned subsidiary of Moses H. Cone Memorial Hospital (“Cone Health”). In 2016, the Company reported additional paid-in surplus of \$6,160,000 from Wesley Long and \$1,540,000 from CNC TX.

On December 8, 2016, the Company’s parent, Cone Health committed to ensure the Risk Based Capital (“RBC”) for the Company is and remains in compliance with North Carolina General Statutes. If necessary, Cone Health will provide additional capital to the Company to maintain RBC compliance.

In 2017, the Company reported surplus contributions from its parent companies totaling \$25,180,000, of which \$11,400,000 was provided by Moses H. Cone Memorial Hospital (“Cone Health”) and \$13,780,000 was provided by Wesley Long. A portion of the surplus contribution was received in 2017 in order to fund the buyback of 20% ownership, or 80,000 shares of common stock from CNC TX and the remaining contribution was received in 2018 to fund the Company’s losses and meet the minimum capital and surplus requirements.

At December 31, 2017, the Company has 320,000 shares of common stock issued and outstanding, which are wholly owned by Wesley Long, and 80,000 shares of treasury stock.

In 2018, the Company reported surplus contributions from Cone Health totaling \$14,750,000, of which \$4,250,000 was received in 2018 and the remaining contribution was received in 2019. At December 31, 2018, the Company reported \$52,688,923 in gross paid-in and contributed surplus and (\$37,035,986) in unassigned funds. The Company incorrectly reported common stock and treasury stock at December 31, 2018. (Refer to Summary of Significant Findings)

## CAPITAL STOCK

As of December 31, 2018, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	400,000
Number of shares issued and outstanding	320,000
Total common capital stock	\$320,000
Total Treasury stock	\$80,000
Par value per share	\$1.00

As of December 31, 2018, all outstanding shares are owned by the parent company, Wesley Long. The Company has neither reissued nor retired the 80,000 shares of treasury stock.

## **DIVIDENDS TO STOCKHOLDER**

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. The Company paid no dividends in 2017 and 2018.

## **MANAGEMENT AND CONTROL**

### **CORPORATE GOVERNANCE**

#### **Board of Directors**

The business of the Company is conducted by its management team, and subject to review by the Board. The bylaws specify that the number of directors shall be no less than five and no more than thirteen. Directors are elected annually, at the annual meeting of shareholders and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2018:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Steven R. Neorr	Greensboro NC	Senior Vice President of Population Health Chief Executive Officer of HealthTeam Advantage
Jeffery F. Jones	Greensboro NC	Executive Vice President and Chief Financial Officer of Cone Health; Chief Financial Officer, HealthTeam Advantage
Jim Roskelly	Greensboro NC	Executive Vice President of Strategic Development and Cone Health
John F. Campbell	Greensboro NC	Medical Doctor

The Board has not designated any committees.

#### **Officers**

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a chief executive officer, a president, a vice president, a chief operating officer, a secretary, a treasurer and a chief medical officer. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any number of offices may be held by the same person.



The following individuals served as officers of the Company as of December 31, 2018:

<b>Name</b>	<b>Title</b>
Steven R. Neorr	Chief Executive Officer
Brendan M. Hodges	President/Secretary
Jeffrey F. Jones	Treasurer/Chief Financial Officer

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company acted in accordance with its policy and procedure for disclosure of conflicts of interest.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the Board approved these transactions and events.

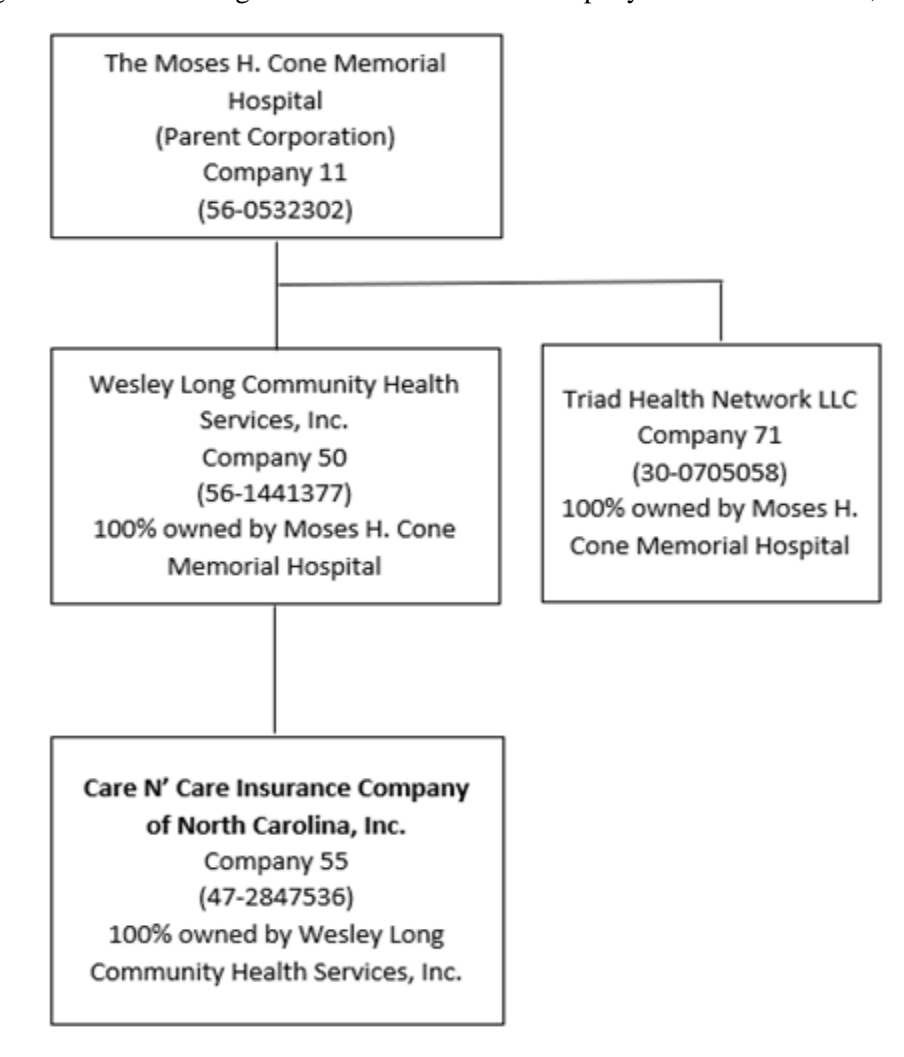
The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On March 16, 2018, the Company amended its Bylaws to clarify the bylaws can be altered or repealed and new bylaws maybe adopted at any annual or special meeting of shareholders, by affirmative vote of the holders of a majority of the voting power of stock issued and outstanding and entitled to vote.

## **CORPORATE ORGANIZATION**

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of Wesley Long, which is a wholly owned subsidiary of Cone Health. Cone Health also owns 100% ownership of Triad Health Network, LLC ("THN").

## ORGANIZATION CHART

The following is a summarized organizational chart of the Company as of December 31, 2018:



## STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company maintains the statutory deposit in North Carolina only.

## FIDELITY BONDS AND OTHER INSURANCE

The Company did not have any fidelity bond coverage for the period under examination. (Refer to the Summary of Significant Findings)

## **EMPLOYEE BENEFITS, INCENTIVE PROGRAMS AND PENSION PLANS**

Cone Health is the sponsor and administrator for a 401K plan that covers the Company employees. Contributions are not recorded on the Company's financials.

The Company has an annual employee incentive pay program effective on October 13, 2016. The program facilitates the awarding of a monetary lump sum for employees of which 50% is based on employee performance and the remaining 50% is based on the Company's performance. Incentives are not guaranteed on an annual basis. The Company paid \$395,840 in employee incentives under this plan for 2018.

The Company has a long-term incentive plan effective on January 1, 2017, which covers employees who are directors, vice presidents, executive vice presidents, senior vice presidents and other officers of the Company. The plan pays out 50% of the employees' incentive pay program and each plan participant must be approved by the Cone Health Board. The Company paid \$97,098 in long-term incentives under this plan for 2018.

## **RELATED PARTY AGREEMENTS**

The Company had a delegation agreement with THN, a subsidiary of Cone Health, effective July 1, 2016, whereby THN provides complex case management and disease management services to the Company in return for a per-member per-month fee. Under this agreement, the Company incurred fees totaling \$670,515 for 2017. This agreement was cancelled as of December 31, 2017. The per-member per-month fee was replaced by the agreement below.

The Company had a delegation agreement with Cone Health, effective July 1, 2016, whereby Cone Health provides case management and disease management services to the Company. In return for the services, the Company paid Cone Health 1% of capitation revenue for population risk management services that started July 1, 2017. The Company paid Cone Health fee totaling \$1,259,551 and \$517,907 in 2018 and 2017, respectively.

The Company had a Network Physician Services Agreement, or Independent Practice Association agreement ("IPA Agreement") with North Texas Specialty Physicians ("NTSP") effective February 15, 2015, whereby NTSP provided claims processing, case management, credentialing and certain other activities to the Company. In return for the delegated responsibilities the Company paid NTSP 32% of all Medicare Part C capitation payments received from CMS. Under this agreement, the Company incurred fees totaling \$17,774,809 for 2017. The IPA Agreement was amended and expired at December 31, 2017.

The Company entered into a new Network and Administrative Services Agreement (also known as "THN Delegation Agreement") with THN, effective January 1, 2018. The new THN Delegation Agreement covers many of the services provided in the previous IPA Agreement with NTSP and the case management services provided by Cone Health. In exchange for the services provided under the THN Delegation Agreement, the Company pays 33% of Medicare Part C premiums as an Independent Practice Association fee through September 30, 2018 and amended to 27% of Medicare Part C premiums effective October 1, 2018. Under this agreement, the Company incurred fees totaling \$6,040,742 and \$522,665 in 2018 and 2017, respectively. As of December 31, 2018, there was net payable due from the Company to THN related to this agreement of \$839,105.

The Company had an administrative service agreement with Cone Health, effective June 27, 2016, whereby Cone Health provides general administrative services and support, including but not limited to accounting and bookkeeping services, payroll services, leasing of building space and other various services. During 2017, the Company began leasing its own space, added employees, and took other functions previously handled by Cone Health. Under this agreement, the Company incurred fees totaling \$48,420 and \$48,425 in 2018 and 2017, respectively.

The Company had a Medicare Advantage Delegation Agreement (“MADA”) with CNC TX, effective March 1, 2016, whereby CNC TX provides various administrative services, including but not limited to software systems, accounting, actuarial services, eligibility and enrollment, contracting and bidding. In 2017, MADA was amended due to the sale of CNC TX to Wesley Long. Under this agreement, the Company incurred fees totaling \$2,100,320 and \$2,985,971 in 2018 and 2017, respectively. (See Corporate Organization section)

## **TERRITORY AND PLAN OF OPERATION**

The Company is a health maintenance organization (“HMO”) and is authorized to write cancelable accident and health insurance. The Company’s HMO authority and accident and health insurance service are restricted to Medicare Advantage business only. On January 1, 2016, the Company began providing coverage for Medicare Part C and Part D services to the residents of certain counties of North Carolina who enrolled in one of the Company’s two insurance plans. The Company solicits business through independent agents located throughout the various counties in which it’s licensed.

As of December 31, 2018, the Company was licensed in five counties, Alamance, Forsyth, Guilford, Randolph, and Rockingham with a total membership of 14,664 enrollees.

### **TRENDS OF THE COMPANY**

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2018:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income(loss)</b>
2018	\$37,581,136	\$16,052,937	\$128,810,693	\$128,691,006	\$(11,362,429)
2017	\$57,254,954	\$13,418,071	\$103,798,947	\$103,340,877	\$(18,462,703)
2016	\$21,046,299	\$8,105,204	\$56,901,847	\$56,753,363	\$(3,590,320)
2015	\$4,627,556	\$4,107,257	\$0	\$0	\$(1,403,523)

### **ACTUARIAL OPINION**

Every health insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually have an Actuarial Opinion and Actuarial Memorandum made available to the Board in accordance with the Annual Statement Instructions and GS § 58-2-165(c).

The statutory reserves and related items for 2018 were reviewed and certified by the Company’s Appointed Actuary, Gregory S. Winkler, FCAS, MAAA of Wakely Consulting Group, LLC. Actuarial opinions

regarding the Company's reserves for claims unpaid, claims unpaid adjustment expenses and premium deficiency reserves were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the claims unpaid, claims unpaid adjustment expense reserves and premium deficiency reserves. According to the actuarial opinions, the Company's reserve on the claims unpaid, claims unpaid adjustment expense and premium deficiency reserves met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all claims unpaid and claims unpaid expense obligations of the Company. At December 31, 2018, the Company's premium deficiency reserve was underestimated by \$2,689,918 and its reserves for unpaid claims was underestimated by \$918,000. (Refer to the Summary of Significant Findings)

## **REINSURANCE PROGRAM OVERVIEW**

### **REINSURANCE CEDED**

The Company has a Specific Excess of Loss reinsurance agreement with PartnerRe America Insurance Company effective January 1, 2018, whereby the Company retains 10% of cost of covered services and the reinsurer pays 90% after a \$250,000 deductible has been satisfied. The amount of inpatient service reimbursement decreases to 50% if the claim is not received prior to October 1, 2019. Reinsurance limits are unlimited with a paid premium of \$1.27 per Medicare advantage member per month, with a \$122,500 minimum premium. In 2017 and 2018, the Company ceded premiums totaling \$458,070 and \$119,687, respectively, under this contract.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018, prior to the proposed examination adjustments. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for comparative purposes only.

**Care N' Care Insurance Company of North Carolina, Inc.**  
**Statutory Statement of Admitted Assets**  
**December 31, 2018**

	<b>2018</b>	<b>2017</b> <i>(unexamined)</i>
Bonds	\$4,177,685	\$1,966,240
Cash and short-term investments	19,804,159	33,293,441
<b>Total cash and invested assets</b>	<b>23,981,844</b>	<b>35,259,681</b>
Investment income due and accrued	152,688	87,421
Premiums and agents' balances in course of collection	64,396	66,279
Accrued retrospective premiums	1,957,255	1,479,179
Amounts receivable relating to uninsured plans	-	152,597
Electronic data processing equipment and software	234,990	217,490
Receivable from parent, subsidiaries and affiliates	10,500,000	11,400,000
Healthcare and other amounts receivable	689,963	8,592,306
<b>Total admitted assets</b>	<b>\$37,581,136</b>	<b>\$57,254,953</b>

**Care N' Care Insurance Company of North Carolina, Inc.**  
**Statutory Statement of Liabilities, Capital and Surplus**  
**December 31, 2018**

	<b>2018</b>	<b>2017</b> <i>(unexamined)</i>
Claims unpaid	\$15,002,176	\$13,325,431
Unpaid claims adjustment expenses	834,032	-
Aggregate health policy reserve	398,483	5,729,706
Premium received in advance	79,499	2,735
General expenses due or accrued	1,448,772	1,709,440
Amounts due to parents, subsidiaries and affiliates	966,331	1,614,183
Liability for amounts held under uninsured plans	2,798,906	3,050,540
IPA Agreement Payable	-	7,965,146
Payable to North Texas Specialty Physicians	-	4,839,702
Payable to Care N' Care Insurance Company for Stock Repurchase	-	5,600,000
<b>Total Liabilities</b>	<b>21,528,199</b>	<b>43,836,883</b>
ACA 9010 Fee	-	1,146,627
Common capital stock	400,000	400,000
Gross paid in and contributed surplus	52,688,923	38,018,923
Unassigned surplus	(37,035,986)	(26,067,479)
Less treasury stock	-	80,000
<b>Total capital and surplus</b>	<b>16,052,937</b>	<b>13,418,071</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$37,581,136</b>	<b>\$57,254,954</b>

**Care N' Care Insurance Company of North Carolina, Inc.**  
**Statutory Statement of Revenue and Expenses**  
**December 31, 2018**

	<b>2018</b>	<b>2017</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Net premium income	\$128,691,006	\$103,340,877
Total Revenues	128,691,006	103,340,877
Hospital/medical benefits	86,515,726	82,237,753
Other professional services	930,656	785,474
Emergency room and out-of-area	13,124,817	-
Prescription drugs	16,633,625	14,963,248
Subtotal	117,204,824	97,986,475
<b>Less:</b>		
Net insurance recoveries	179,494	272,612
Total hospital and medical	117,025,330	97,713,863
Claims adjustments expenses	8,341,375	6,172,361
General administrative expenses	20,842,578	12,423,862
Increase in reserves for life and accidental and health contracts	(5,579,795)	5,657,758
Total underwriting deductions	140,629,488	121,967,844
Net underwriting loss	(11,938,482)	(18,626,967)
Net investment income earned	647,901	164,526
Net realized capital losses	(19,073)	(262)
Net investment gains	628,828	164,264
Net loss from agents' or premium balances charged off	(52,775)	-
<b>Net Loss</b>	<b>\$(11,362,429)</b>	<b>\$(18,462,703)</b>



**Care N' Care Insurance company of North Carolina, Inc.**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2018**

	<b>2018</b>	<b>2017</b> <i>(unexamined)</i>
Capital and surplus, prior reporting year	\$13,418,071	\$8,105,204
Net loss	(11,362,429)	(18,462,703)
Change in net deferred income tax	2,526,157	3,430,935
Change in non-admitted assets	(3,348,650)	(4,444,328)
Change in treasury stock	80,000	(80,000)
Surplus adjustments to paid-in capital	14,670,000	25,180,000
Prior period audit adjustments	(181,419)	(311,039)
Tax Adjustment	251,208	-
Net change in capital and surplus	2,634,867	5,312,868
<b>Capital and surplus, end of year</b>	<b>\$16,052,938</b>	<b>\$13,418,072</b>

**Care N' Care Insurance Company of North Carolina, Inc.**  
**Statutory Statement of Cash Flow**  
**December 31, 2018**

	<b>2018</b>	<b>2017</b> <i>(unexamined)</i>
<b>Cash Used By Operations</b>		
Premiums collected net of reinsurance	\$128,573,011	\$107,470,048
Net investment income	567,639	78,586
<b>Total</b>	<b>129,140,650</b>	<b>107,548,634</b>
Benefit and loss related payments	107,411,837	104,197,538
Commissions, expenses paid and aggregate write-ins	28,940,509	14,885,347
<b>Total</b>	<b>136,352,346</b>	<b>119,082,885</b>
<b>Net cash used by operations</b>	<b>(7,211,696)</b>	<b>(11,534,251)</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	2,463,120	125,000
Miscellaneous proceeds	-	3,554,128
<b>Total investment proceeds</b>	<b>2,463,120</b>	<b>3,679,128</b>
Cost of investments acquired bonds	4,660,563	1,967,904
Miscellaneous application	18,080	262
<b>Total investments acquired</b>	<b>4,678,643</b>	<b>1,968,166</b>
<b>Net cash from (used by) investments</b>	<b>(2,215,523)</b>	<b>1,710,962</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Cash from capital and paid-in surplus	4,250,000	25,100,000
Other cash (applied)provided	(8,312,063)	7,089,073
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>(4,062,063)</b>	<b>32,189,073</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	(13,489,282)	22,365,784
Cash and short-term investments, beginning of year	33,293,441	10,927,657
Cash and short-term investments, end of year	\$19,804,159	\$33,293,441

## COMMENTS ON FINANCIAL STATEMENTS

Examination adjustments totaling \$1,822,840 were proposed to reduce the Company's surplus reported at December 31, 2018. (Refer to the Summary of Significant Findings)

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

**Non-admitted assets:** Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charges against surplus.

**Claims unpaid & claims unpaid adjustment expense:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported.

### Analysis of Assets:

The following represents an analysis of the Company's net admitted assets as of December 31, 2018, prior to the proposed examination adjustments:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$4,177,685	-	\$4,177,685
Cash and short-term investments	19,804,159	-	19,804,159
<b>Total cash and invested assets</b>	<b>23,981,844</b>		<b>23,981,844</b>
Investment income due and accrued	152,688	-	152,688
Premiums and agents' balances in course of collection	64,396	-	64,396
Accrued retrospective premiums	1,957,255	-	1,957,255
Amounts receivable relating to uninsured plans	178,108	178,108	-
Net deferred tax assets	7,603,003	7,603,003	-
Electronic data processing equipment and software	243,888	8,898	234,990
Furniture and equipment, including health care delivery assets	636,291	636,291	-
Receivable from parent, subsidiaries and affiliates	10,500,000	-	10,500,000
Health care and other amounts receivable	758,730	68,767	689,963
Prepaid Expenses	151,930	151,930	-
Security Deposits	746,508	746,508	-
Other Receivables	180,743	180,743	-
<b>Total admitted assets</b>	<b>\$47,155,384</b>	<b>\$9,574,248</b>	<b>\$37,581,136</b>

The Company improperly admitted pharmacy rebates of \$279,525 in healthcare and other amounts receivable at December 31, 2018. (Refer to Summary of Significant Findings)

### **Reinsurance Activity:**

The Company has an excess of loss contract to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes McPhee & Associates, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	<b>2018</b>	<b>2017</b>
Direct written earned	\$128,810,693	\$103,798,947
Ceded earned	119,687	458,070
<b>Net earned</b>	<b>\$128,691,006</b>	<b>\$103,340,877</b>

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview section.

### **Summary of Reserves:**

The following provides a reconciliation of the Company's reserves for claims unpaid and claims unpaid adjustment expenses:

	<b>Current Year</b>	<b>Prior Year</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$4,070,518	\$4,444,699
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	116,958,740	94,788,793
Change in estimated losses and loss adjustment expenses, prior years	(1,384,402)	915,273
<b>Total incurred</b>	<b>115,574,338</b>	<b>95,704,066</b>
<b>Deduct:</b>		
Claims and Unpaid Claims adjustment expenses paid, current year	103,441,062	90,718,275
Claims and Unpaid Claims adjustment expenses paid, prior year	2,686,116	5,359,972
<b>Total paid</b>	<b>106,127,178</b>	<b>96,078,247</b>
Reserve for losses and loss adjustment expenses, end of year	13,517,678	4,070,518
Increase/decrease in reserve for unpaid claims and unpaid claims adjustment expenses	\$1,676,745	\$(7,462,137)

Reserves for unpaid claims and unpaid claim adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2018, the liability for claims unpaid and unpaid claims adjustment expenses was reduced by \$83,300 for amounts to be recovered from reinsurers. There were no amounts recoverable for unpaid claims and unpaid claims adjustment expenses recorded at December 31, 2017.

At December 31, 2018 and 2017, the Company's unpaid claims and unpaid claims adjustment expenses was reduced further by healthcare and other amounts receivable by \$1,401,198 and \$9,254,913, respectively.

### **Capital and Surplus:**

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus:

	<b>2016</b>	<b>2015</b>
Capital and surplus, beginning of year	\$4,107,257	-
Capital and surplus increases (decreases):		
Net income(loss)	(3,590,320)	(1,403,523)
Change in net unrealized capital gain (loss)	(4,518)	-
Change in net deferred income tax	1,154,678	491,234
Change in nonadmitted assets	(1,261,893)	(519,377)
Capital adjustments to paid-in capital	-	400,000
Surplus adjustment to pain-in capital	7,700,000	5,138,923
Change in surplus as regards policyholders for the year	3,997,947	4,107,257
Capital and surplus, end of year	\$8,105,204	\$4,107,257

### **Lease Commitments**

The Company has a non-cancelable operating lease for office space which expires in 2023. The Company incurred rent expenses related to office space for years ended December 31, 2018 and 2017 of \$171,830 and \$62,178, respectively. Future minimum annual lease payments under the noncancelable operating lease subsequent to December 31, 2018 are as follows:

<b><u>Year</u></b>	<b><u>Amount</u></b>
2019	\$204,729
2020	\$206,766
2021	\$212,918
2022	\$212,918
2023	\$159,688

### **Contingencies and Commitments:**

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

## **SUBSEQUENT EVENTS**

In February 2019, the Company received a surplus contribution of \$10,500,000 from Cone Health.

Effective January 1, 2019, the Company changed its reinsurance intermediary from McPhee & Associates, Inc. to RGA Reinsurance Company, which is domiciled in Missouri and is licensed as a foreign insurer in North Carolina.

**CARE N' CARE INSURANCE COMPANY OF NORTH CAROLINA, INC.**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2018**

Brendan M. Hodges  
President and Secretary  
7800 McCloud Road, Suite 100  
Greensboro, North Carolina 27409

Thomas G. Wilson  
Vice President, Chief Compliance Officer  
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## CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings but an adjustment to surplus has been recommended.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75(2)(a) and GS § 58-67-110 for the kinds of insurance that the Company has been authorized to write, which is \$1,500,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

December 12, 2019

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Keith Greene Date: 12/12/2019  
Keith Greene

Sworn and subscribed before me this 12<sup>th</sup> day of December, 2019.

Notary Public Signature: Jameka N Bell Notary Public Seal:

